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THREE KINDS OF REVERSE MORTGAGES

Single Purpose Reverse Mortgages

HECM Challenges The HECM loan was originally envisioned as a means to help older homeowners who were “house rich but cash poor” gain access to a portion of their home’s equity. The HECM program has undergone many changes over the years. Single-purpose reverse mortgages are the least expensive option. They’re offered by some state and local government agencies, as well as non-profit organizations, but they’re not available everywhere. 4 These loans may be used for only one purpose, which the lender specifies. For example, the lender might say the loan may be used only to pay for home repairs, improvements, or property taxes. Most homeowners with low or moderate income can qualify for these loans.

When you have a regular mortgage, you pay the lender every month to buy your home over time. In a reverse mortgage, you get a loan in which the lender pays you. Reverse mortgages take part of the equity in your home and convert it into payments to you, a kind of advance payment on your home equity. The money you get usually is tax-free and it generally won’t affect your Social Security or Medicare benefits. Generally, you don’t have to pay back the money for as long as you live in your home as your primary residence. In addition, lenders do not establish escrow accounts, therefore you are responsible to pay your taxes and insurance, flood insurance, HOA/Condo fees and maintain the home in a reasonable fashion. Alternatively, a set aside account can be established to pay for these various fees and borrowers can fund this account from their reverse mortgage loan proceeds.

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Proprietary Reverse Mortgages are made by Private Lenders

Proprietary Reverse Mortgages are private loans that are backed by the companies that develop them and are not insured by FHA. This type mortgage is also known as Jumbo Reverse Mortgage. Unlike the standard HECM reverse mortgage, jumbo reverse mortgage products generally do not require monthly mortgage insurance premiums.

Since private lenders have not been able to offer competitive rates within the HECM loan-limit space, proprietary loans have typically served the “jumbo” sector of the reverse mortgage market where home values far exceed the FHA home value limit of $636,150. Many high-value homeowners choose to take their loans as a line of credit where you only pay interest on the sum you actually use. And, as with all reverse mortgages, you don’t have interest payments during the term of the loan nor should you owe more than the value of the home at the time the loan is ended. And, so long as you reside in the home, you will always retain ownership.

Today few lenders offer proprietary reverse mortgage loans. A major downside of proprietary loans is that they lack many of the consumer protections that are mandatory for HECM borrowers. Therefore, these loans are riskier to the consumer.

Home Equity Conversion Mortgages (HECMs)

HECMs and proprietary reverse mortgages may be more expensive than traditional home loans, and the upfront costs can be high. That’s important to consider, especially if you plan to stay in your home for just a short time or borrow a small amount. How much you can borrow with a HECM or proprietary reverse mortgage depends on several factors:

- Age of the youngest borrowers or non-borrowing spouse. The older they are, the more funds may be available.
- The type of reverse mortgage you select · The appraised value of your home · Current interest rates.

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THREE KINDS OF REVERSE MORTGAGES

- HECM loans can be used for any purpose.

In general, the older you are, the more equity you have in your home, and the less you owe on it, the more money you can get. If you still owe a lot of money on your existing mortgage, you might not have enough equity to pay off your current mortgage with a reverse mortgage which means you may not be able to get a reverse mortgage.

If you plan to leave your home to heirs, talk to them about their repayment options. If your heirs want to keep the home, they will have to repay either the full loan balance or 95% of the home's appraised value whichever is less.